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TAGS: [ELAB](#) [ECON](#) [PGOV](#) [PHUM](#) [CH](#)
SUBJECT: PRESERVING JOBS TAKES PRECEDENCE

REF: A. A) BEIJING 448
[1](#)B. B) BEIJING 400
[1](#)C. C) BEIJING 281
[1](#)D. D) BEIJING 232

Classified By: ECONMINCOUNS ROBERT S. LUKE - REASON 1.4(b and d)

[1](#)1. (SBU) Spurred by concern over social instability, the Chinese government has responded rapidly to a deteriorating job market, and has made "stabilizing employment" a top economic priority. The main thrust of central and local government measures is to keep people on the job, even if it means reducing wages, benefits and legal protections for workers. The government is also committing significant resources to assist the unemployed with job placement, vocational training and assistance to start their own businesses. More meaningful and longer-term labor market reforms, however, like loosening the mobility-restricting household registration system, improving the social safety net, and changing the labor relations system to give workers more bargaining power are on the back burner. The government's approach may prove effective in the short-term, but appears based on the expectation that the economy will soon begin to recover. So far there appears to be no plan B.
End Summary.

Stabilizing Employment Becomes Government Priority

[1](#)2. (SBU) As late as September 2008, Chinese economists were still talking about labor shortages, and local governments viewed the closure of low value-added, export-oriented factories as a welcome sign of economic progress. The only group affected by pronounced unemployment was recent university graduates, which the Ministry of Human Resources and Social Security (MOHRSS) treated as a niche problem that it could address through job fairs and benign neglect (ref A). But as local governments scrambled to deal with a wave of labor unrest at suddenly downsized export-oriented factories in October, the central government dispatched research teams, and followed up rapidly with new resources and policy guidance. Shortly after unemployment began to spike in October-November, Chinese Premier Wen Jiabao and MOHRSS pledged vigorous action to "stabilize employment," especially for migrant workers and university graduates, the two groups most affected by the deteriorating job market. According to Wang Xiaozhuo, Deputy Director of the National Development and Reform Commission's (NDRC) office of Labor and Income Distribution, the Chinese Government now places as high a priority on job creation as it does on economic growth.

[1](#)3. (SBU) The Chinese government does not publish meaningful unemployment statistics (ref D), but various informal surveys (conducted by media organizations and human resources firms) in late 2008-early 2009 estimated the unemployment rate to be 6-10 percent for urban workers, about 12 percent for recent college graduates, and 10-20 percent for migrant workers. By various estimates, 20-25 million migrant workers lost their

jobs prior to Chinese New Year. Migrant workers are now returning to urban areas from the Chinese New Year holiday, and NGO contacts in Beijing told Laboff on February 18 that about 30 percent of this year's arriving migrants have not found jobs, compared to about five percent in previous years.

Informal surveys also report that wages for unskilled workers have dropped more than ten percent in some urban areas since before the New Year holiday.

¶4. (SBU) The NDRC's Wang Xiaozhuo told Laboff on February 18 that the State Council's February 10 "Notice on Carrying Out Job Creation Well Under the Current Economic Circumstances," is the most recent and comprehensive statement of government policy to stabilize employment. The Notice contains a variety of measures to lower costs for employers, help the unemployed find new jobs, upgrade their skills and start new businesses. Wang said the government is also working to stimulate domestic consumption to replace China's shrinking export markets. She said the government is committed to a "market economy with Chinese characteristics," but that China, like many other countries, views government intervention as necessary at this time because the global financial crisis has limited the market's power to create jobs.

¶5. (SBU) Embassy contacts universally agree that the central and local governments have responded aggressively to the unemployment problem. The State Council Notice reflects best practices already underway at the provincial or sub-provincial level to prevent lay-offs and keep the unemployed productively occupied. These measures have a short-term focus, however, and in its efforts to stabilize employment the government appears willing to reverse a trend toward higher wages, better benefits, and improved labor law compliance that it has promoted over the past several years.

Preserving Jobs Takes Priority Over Rights Protection

¶6. (C) In November, MOHRSS announced it would suspend planned increases in minimum wages nationwide. In December, the press reported that MOHRSS, the Ministry of Finance and the State Administration of Taxation also issued a joint circular to local governments allowing them to defer or reduce social insurance contributions for financially troubled employers. The government did not make this circular public, but Constance Thomas, director of the International Labor Organization (ILO) office in Beijing told Laboff on February 13 that it exists, and that local governments are allowing companies to defer social insurance contributions for up to a year, if they have tried all other means to remain afloat.

¶7. (C) Thomas said MOHRSS also circulated other guidance explicitly instructing local labor bureaus not to aggressively enforce certain provisions of China's Labor Contract Law that impose high costs on employers and deter employment. Professor Qiao Jian, of the China Institute of Industrial Relations, confirmed this, and also told Laboff on February 18 that labor bureaus have even been instructed to tolerate a certain level of wage arrears as they help enterprises find ways to reduce costs and keep workers on the job. Thomas said MOHRSS does not want to encourage employers to violate the law, so it has not publicized which laws and regulations it will enforce and which it will not. But local labor bureaus, she said, are providing advisory services to troubled employers and offering creative solutions to prevent lay-offs. Thomas said the labor bureaus are also keeping an eye on labor activism and potential unrest.

¶8. (C) One regulation that the State Council and MOHRSS have not waived is article 41 of the Labor Contract Law, which requires employers to consult with trade unions or workers' assemblies over planned mass lay-offs. In practice, this provision gives labor bureaus power to intervene to prevent lay-offs. Constance Thomas said that local labor bureaus are using this power to let employers reduce working hours and lower wages to avoid lay-offs, as long as they

don't go below the local minimum wage. Qiao Jian said state-owned enterprises find it very difficult to win approval for lay-offs, but that many are resorting to indirect methods, such as lowering wages and reducing hours to encourage workers to quit.

¶9. (C) According to Luan Shaohu, a labor lawyer and member of the Qingdao People's Congress, there is also increasing debate about the Labor Contract Law in local and provincial legislatures. Luan told Laboff on February 17 that many government officials and legislators now believe that the Labor Contract Law was "premature," and that it was a mistake to try to correct the power imbalance in Chinese labor relations by drafting a law that was skewed in favor of workers. One prominent economist, Zhang Weiying of the Guanghua School of Management at Peking University, has even called publicly for government to stop enforcing the Labor Contract Law altogether, arguing that it raises labor costs and causes unemployment. Luan said he believed there would be debate about the merits of the Labor Contract Law at the upcoming National Peoples Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) meetings in March, but he did not believe there would be any attempt to amend or repeal it this year.

Job Preservation Trumps Long-term Restructuring

¶10. (C) Wang Xiaozhou of the NDRC told Laboff that China is re-thinking some economic policies with a new focus on jobs. China still wants to rid itself of low-end industries, she said, but the government is now willing to offer tax incentives and soft loans to labor-intensive industries such as textiles and construction in order to protect jobs, "so long as these businesses are law-abiding." On February 13, the Guangdong Province People's Congress issued a report laying out a new strategy to promote job growth by nurturing unspecified "labor intensive" industries, a sharp departure from the province's "double transfer" policy, to move labor intensive industries to less-developed areas and replace them with high-tech, high-value added ones. MOHRSS Vice Minister Zhang Xiaojian also said on February 17 that "supporting the development of labor intensive industries, especially small and medium-sized enterprises and service industries" would be part of the government's program to promote job creation.

¶11. (C) Measures the government has announced under the theme of stabilizing employment generally do not address the kinds of long-term economic and labor market reforms most experts believe are necessary (refs A, B and D). Even vocational training programs, funded in large part with unemployment insurance funds, seem designed largely to give workers something to do. The ILO's Constance Thomas said that vocational training programs can help address the persistent skills deficit in the Chinese labor force, but that the quality of recent, hastily-organized vocational training programs is uneven, and does not necessarily match what the labor markets need. Many training programs conducted within enterprises as an alternative to laying workers off are remedial or not clearly relevant to the workers, future needs. In some cases, local governments are paying workers stipends to attend training courses. Thomas also said rapidly expanding government programs for small business training and loans are not necessarily well-managed, though she believes these programs do offer great potential to increase incomes and create new jobs.

¶12. (SBU) Programs to promote job creation for college graduates (ref A) largely consist of subsidies, assignment to newly-created public sector jobs and intensified efforts to place graduates. On February 19, for example, the Beijing Municipal government announced that it would guarantee at least one job offer for every unemployed college graduate who seeks job placement assistance through the Beijing labor bureau, and counseled that students should not reject positions that the government has determined are appropriate for them.

¶13. (SBU) Most experts agree that reform of the household registration (hukou) system is one of the most important steps China could take to expand employment opportunities for migrant workers. While the State Council's February 10 Notice discusses relaxing some hukou restrictions for college graduates seeking employment, there are no analogous policies for migrant workers. Nor has the government raised permanent reform of the hukou system in any of its public statements on employment stabilization.

¶14. (C) The complex issue of how to stimulate domestic consumption will likely be a subject of discussion at the NPC/CPPCC meetings in March, but the measures announced so far seem haphazard and uncoordinated (e.g. the issuance of vouchers for consumers to spend locally on goods and services.) The government has long acknowledged that improving China's social safety net is key to increasing consumption, but has not accompanied its recent pronouncements on stabilizing employment with significant steps to accelerate reform of the social safety net. The ILO's Constance Thomas said China's draft Social Insurance Law (ref C) has "no substance" and does not appear to be a serious effort to construct a viable social safety net. The NDRC's Wang Xiaozhuo said China's social safety net is "preliminary," and said the government is working to gradually build a more comprehensive system that will cover everyone by the year 2020. She noted, however, that social benefits promised to workers in the central planning era left China with a big financial burden, and that it will not be possible in the near future to provide a strong safety net or narrow the gap in benefits between the urban and rural systems.

Stabilizing Employment and Social Stability

¶15. (C) MOHRSS Minister Yin Weimin and other leaders have explicitly cited potential social instability as a pressing reason to make sure graduates and migrant workers have jobs. Qiao Jian told laboff that unrest is indeed rising. In just the second half of 2008, he said, there was a sharp increase in both officially processed labor mediation and arbitration cases (up 100-200 percent nationally) and labor-related mass incidents. Qiao said the government is looking at ways to create new consultative mechanisms between workers and employers to prevent and resolve disputes, though he questioned how effective such mechanisms could be without labor unions that genuinely represent the interests of workers. Qiao said China is looking toward a tripartite model in which the government would play an active role and stress compromise to protect the interests of employers and workers alike. A February 12 speech by Wang Zhaoguo, Chairman of the Communist Party-controlled All China Federation of Trade Unions (ACFTU) shed more light on this. Wang said the ACFTU would support government policies to maintain economic growth and social stability, and increase domestic demand and would launch a &common agreement campaign⁸ in which the ACFTU would encourage employers to preserve jobs and guide workers to help ensure the economic viability of their employers by accepting lower wages and less desirable working hours.

¶16. (SBU) Meanwhile ACFTU Vice-chair Sun Chunlan provided some insight into how the official trade union views the possibility of social unrest. After announcing an ACFTU program on February 17 to assist unemployed migrant workers with job placement and loan guarantees, Sun added, "the highest levels of government have taken note of the social instability that could arise from large scale unemployment. The Ministry of Public Security has sent investigative groups to understand the social stability situation throughout the country...we must vigorously defend against domestic and foreign hostile forces that would use the difficulties some businesses are facing to infiltrate and sabotage the ranks of migrant workers."

Comment:

¶17. (SBU) When asked about the potential for social instability the NDRC's Wang Xiaozhuo simply told Laboff that the Chinese government expects continued economic growth to absorb surplus labor. None of Embassy's other government or non-government contacts have so far been willing to speculate about further measures the government may be considering. Publicly and privately, the government continues to express confidence that the economy will improve and that interim short-term measures will be enough to keep unemployment under control. If there is a plan B, the government is not sharing it.

¶18. (U) Congen Guangzhou cleared this cable.

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